COMMONWEALTH OF MASSACHUSETTS
DEPARTMENT OF TELECOMMUNICATIONS AND ENERGY

PINEHILLS WATER COMPANY, INC.
D.T.E. 01-42

Second Set Of Information Requests By The Department

Witness Responsible: Stephen B. Alcott

DTE 2-3 Refer to Page 6, line 4 of Mr. Alcott's prefiled testimony. In addition to the corporate entities listed in the Company's response to DTE 1-21, are there any other third-party providers the Company plans to enter into agreements with for the operation and maintenance of the water system? If there are, please identify them by name and the services they would be providing.

Response **No other third-party providers are presently contemplated than the three indicated in DTE 1-21: Horsley & Witten, USI Utility Services and Sarian.**

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Witness Responsible: Stephen B. Alcott

DTE 2-4 Refer to Page 10, lines 4-7 of Mr. Alcott's prefiled testimony. Please explain why the Company's customers will be directly billed for fire protection service, versus billing the Town of Plymouth, Pinehills Landowners Association, or some other entity?

Response: **Regarding the first option, it was made clear in the process of establishing the Pinehills development project, that billing the Town of Plymouth for fire protection water service was not acceptable to the Town.**

Thus, the only alternative to billing customers directly would be for the Company to create a new entity such as a fire district, with the power to levy its own charges on individual customers, or to bill the planned landowners associations. In either case, the Company would have to create another customer classification for "public" fire protection service.

If the landowners associations were to be billed, they would in turn bill the individual customers and the amounts charged to individual customers would be part of the common fees. Review of these common fees would be more complicated than under the proposed direct billing, where the charges each customer actually pays are part of the Company's rate structure and part of the normal rate review process.

The Company has proposed billing customers for public fire protection service directly as the simplest solution.

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Witness Responsible: Stephen B. Alcott

DTE 2-5 Refer to the Company's response to DTE 1-18. Is the facilities lease agreement considered a capital lease or operating lease for accounting purposes? As part of this response, please describe the factors which would be applied in determining the accounting treatment of the facilities lease agreement and the extent to which these factors would or would not apply to the facilities lease agreement.

Response: **The facilities lease agreement is considered by the Company to be an operating lease for accounting purposes. The following factors are those generally used to distinguish between capital and operating leases. A lease with substantial indicia of the four factors listed below is generally considered a capital lease. Comments on each factor discuss the facilities lease in context of such factors.**

a) **lease transfers ownership of property at end of term- The facilities lease provides for an ownership transfer only as an option to purchase, not an automatic transfer and Lessee and Lessor must agree on a new rent schedule for any succeeding term. If there is no such new agreement, the lease will terminate.**

b) **lease contains a bargain purchase option- The facilities lease has the purchase option at a purchase price of depreciated book value but where this is a 5 year lease it is different from a more usual bargain purchase and the Company believes that this factor is not applicable.**

c) **lease term is equal to 75% of estimated economic life of the leased asset- Because the facilities lease is a 5 year lease, this factor is not applicable.**

d) **present value at the beginning of lease term of the minimum lease payments equals or exceeds 90% of the asset's fair value- Because the facilities lease is a 5 year lease, this factor is not applicable.**

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Witness Responsible: Stephen B. Alcott

DTE 2-6 Refer to Exhibit SBA-1, Schedule 1. Please provide all workpapers, calculations, assumptions, etc., used as the basis of the Company's selection of a base quarterly charge of $40.00 for a 5/8-inch meter.

Response: **The data and calculations shown as STEP TWO on Schedule 3, Page 1 of 2, comprise all of the calculations and workpapers used for developing the quarterly charge. The calculated rate for a 5/8-inch meter ($37.56 per quarter), was rounded to $40 as a reasonable initial rate. This rounding will not create an over recovery of costs, since the proposed total revenue from all rate revenues will be set to equal the allowed total costs.**

The assumptions were as follows:

1. **Capacity ratios by meter size provide an appropriate basis for allocating costs related to basic service among different sized customers.**

2. **The estimated number of larger sized meters, i.e., twenty-one 1-inch meters and one 8-inch, reasonably represents what will actually be installed.**

3. **Twenty-five percent (25%) of general metered service costs, is associated with providing basic, i.e., non-volume related, water service. This would include such items as meter maintenance, meter reading and billing, and customer accounting.**

Additional factors were considered in developing the proposed rates. Minimizing the basic quarterly charge would allow a potential inequity in distributing costs among customers, in particular due to the higher than usual seasonal absenteeism expected in Pinehills. This effect is illustrated by assuming no basic charge and all costs are recovered by means of a single, year-round volumetric charge. Under this rate design, customers who occupy their residences for only part of the year, will pay

proportionally less than full time customers. The result may be unreasonably discriminatory, since only a small percentage of water costs

directly varies with volume consumed. From a financial operations perspective, revenue stability will be significantly compromised when revenues are overly affected by variations in metered consumption. Some fluctuation in revenues is expected, but unreasonable shortfalls in wet years, which may not be balanced by windfalls in dry years, should be avoided.

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Second Set Of Information Requests By The Department

Witness Responsible: Stephen B. Alcott

DTE 2-9 Please explain the manner in which the Company books depreciation expense for income tax purposes. If appropriate, explain any differences or similarities on recording tax depreciation based on whether the Company leases or owns the property.

Response: **The proposed rates are based on the Company (Pinehills Water), owning no depreciable property. Its property is to be funded by contributions in aid of construction ("CIAC"), so no depreciation, for either tax or ratemaking purposes, will be booked. The affiliated Pine Springs Realty LLC, will own the depreciable property and will record tax depreciation as per applicable accounting requirements. The detailed accounting procedures are being developed. As described elsewhere, Pine Springs Realty LLC will maintain its books in a manner acceptable to the Department.**

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D.T.E. 01-42

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Witness Responsible: Stephen B. Alcott

DTE 2-10 Refer to Exhibit SBA-1, in which the Company states that the proposed annual charge for public fire protection is $160.00 per residence. Is fire protection included in the property taxes paid to the Town of Plymouth? If fire protection charges are included, please indicate whether, to the knowledge of the Company, the Town of Plymouth is considering some form of property tax credit adjustment to residents in Pinehills.

Response: **The Company is not aware of any such credit, nor would it think such credit is appropriate. The Town of Plymouth will provide the personnel, fire trucks, etc. to fight fires at The Pinehills just as elsewhere in Plymouth. The Company's Public Fire Protection Charge is for fire hydrants and fire flow capacity provided by The Pinehills water system. The analogous costs for other areas in Plymouth are presumably covered in the water charges to consumers in such other areas of Plymouth.**

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D.T.E. 01-42

Second Set Of Information Requests By The Department

Witness Responsible: Stephen B. Alcott

DTE 2-11 Refer to Exhibit SBA-1. Please provide all workpapers, calculations, assumptions, etc. used to derive the proposed new service connection charges.

Response: **The new service connection charge is a one-time charge which accrues at the time the meter for a new service is set. It will be used to offset costs associated with establishing new accounts. These costs include the general cost of establishing the customer accounting system, creating specific service line and meter records, setting up the customer account and inspecting the new service lines and meter installations located on customer's property. The charge has been set at $350 for a 5/8-inch meter based on a general estimate of these costs. The charges for larger sized meters are based on the capacity ratio by meter size, as follows:**

Meter Size	Capacity Ratio	Proposed Charge
5/8 or 3/4"	1.0	$ 350
1"	2.5	875
1-1/2"	5.0	1,750
2"	8.0	2,800
3"	15.0	5,250
4"	25.0	8,750
6"	50.0	7,500
8"	80.0	28,000 .

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Second Set Of Information Requests By The Department

Witness Responsible: Stephen B. Alcott

DTE 2-12 Refer to Exhibit SBA-1, Schedule 2. Please provide all workpapers, calculations, assumptions, etc. used to derive the proposed annual metered use of 7,000 gallons per quarter per individual residential occupant.

Response: **This per capita use was deemed an appropriate basis for ratemaking purposes, for several reasons. The Company's design engineer used 75 gallons per capita per day, for developing the water supply plan, based on typical residential water demands commonly used for planning water supply facilities. The DEP considers use exceeding 80 GPD per capita to be excessive. 75 GPD per capita is also consistent with the DTE standard for average residential customers of 18,000 gallons per quarter (75 GPD x 2.5 persons per customer is approximately 18,000 gallons per quarter).**

The proposed use per individual residential occupant was calculated as follows:

75 GPD is equivalent to 27,375 gallons per year. Dividing by 4 results in a quarterly use of 6,844 gallons, which was rounded to 7,000 gallons per quarter.

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Witness Responsible: Stephen B. Alcott

DTE 2-13 Refer to Exhibit SBA-1, Schedule 2. Please provide all workpapers, calculations, assumptions, etc. used to derive the proposed annual metered use of 96,500 gallons per quarter for the "average" commercial customer.

Response: **The proposed average commercial use was based on the total commercial use as estimated in the Company's water supply plan, which is 142,840 GPD at buildout. This total was based on projected commercial development, measured in constructed floor space, hotel bedrooms, restaurant seating, etc., times water demand factors commonly used for planning water supply facilities. The water demand factors and projected quantities of future floor space, hotel bedrooms, restaurant seating, etc., are shown on Table A-3, entitled "Phase I to VI Commercial Use of Water in the Neighborhood Green Area", from the Company's master plan. (A copy of the plan, entitled "Water System Master Plan for The Pinehills, Plymouth, Massachusetts", and dated November 16,1999, is attached.)**

For ratemaking purposes, the proposed use per "average" commercial customer was calculated as follows:

Total Estimated Commercial Usage		**142,840**	**GPD**
Annual usage		**52,137,700**	**gallons / year**
As used in rate study		**53,000**	**1000 gallons / year**
less large user			
- estimated usage*	**50,000 GPD**	**18,250**	**1000 gallons / year**
Balance of commercial customers		**34,750**	**1000 gallons / year**
divided by estimated no. of customers		**90**	
Annual Gals / Customer		**386,000**	
Average quarterly use / customer		**96,500**	

***See response to DTE 2-14.**

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DTE 2-14 Refer to Exhibit SBA-1, Schedule 2. Please provide all workpapers, calculations, assumptions, etc. used to derive the proposed annual metered use of 4,500,000 gallons per quarter for the resort/conference center.

Response: **The Company was informed in meetings with Marriott, that their expected water use would be approximately 50,000 GPD. This equals 18,250,000 gallons per year. Dividing by 4 results in a quarterly use of 4,562,500 gallons, which was rounded to 4,500,000 gallons per quarter.**

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DTE 2-23 Refer to Exhibit SBA-2, Schedule 6. Please explain footnote number 2.

Response: **Water supply facilities will be located on several parcels of land. These include the site for the existing wells, pumping and treatment facilities, the site for the future gravity storage tank and the site for the future booster station. In addition, rights of way will be reserved for transmission and distribution mains. The determination of property boundaries and valuation of this land is ongoing.**

For the purposes of this rate proposal, the value of land devoted to water supply, was based on an estimated 14 acres at an estimated price of $50,000 per acre. The DEP requires a protective radius of 400 foot around the well site, which is about 11 acres. Actual configuration of the parcels involved will increase the total needed for the well site. The estimated number of 14 acres is based on the required well site land plus estimates of actual parcel sizes and land required for the other facilities.

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Witness Responsible: Stephen B. Alcott

DTE 2-24 Refer to Exhibit SBA-2, Schedule 6. Please provide all workpapers, calculations, assumptions, etc. used to derive the additional $11,657,000 estimate for water company-owned plant.

Response: **The additional $11,657,000 was estimated by subtracting costs as of 12/31/2000 from the total estimated cost at buildout, as detailed on the referenced schedule. The total cost at buildout is shown on the attachment tabulation, consisting of 9 pages and labeled "Water System Cost Backup Information". The tabulation sets forth the detailed calculations prepared by the design engineer, including his footnotes explaining the underlying assumptions.**

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